

FSC-85-B

5/11/98

SUBJECT: DORAL Packaging Change

DISTRIBUTION:

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The selling/execution of the new Merchandising contracts, Partners Resource Plan and Workplan are clearly the Field's top priority during the next several months. However, DORAL's package change remains a high priority that needs the Field's attention.

With that in mind, we wanted to restate the importance to the company in ensuring a successful introduction of DORAL's new package graphics during May, June and July. As part of a successful introduction, it is extremely important that we minimize the returns of old graphic product, particularly from direct accounts.

This has become even more critical during the last few days because of the effect of the April price increase which triggered a wholesale de-load (pushing more product to retail). Purchases after the price increase, by direct accounts, then slowed. This left us with potentially more old graphics inventory than we had projected at the Public Warehouse level (at the May 8 cut-off). Bottomline, higher returns (than budgeted) on old graphics will have a negative impact on RJRT earnings which obviously affects all of us.

Therefore, during May and June we need to ensure a proactive approach is taken by the Field with regard to old graphic DORAL product at wholesale and retail. Listed below are action steps that should be followed:

- Ensure direct account inventory levels are monitored weekly.
- Direct account warehouse personnel are rotating old graphics effectively.
- RJR Managers maintain an accurate 'feel' for Direct Accounts' inventory vs. projected sales to retail.
 - The objective is to return no more than one day's supply of old graphics from direct accounts.
- RJR Managers communicate with Winston-Salem, during first two weeks in June, accounts with potential excess old graphics inventory - this will allow us enough time to decide whether to extend the return date for those accounts (currently it is June 27).
- Spot check retail account inventory and ensure proper rotation occurs.

By following the above action steps, we believe we can get our old graphic product returns back in line in order to minimize the financial impact.

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R. J. REYNOLDS TOBACCO COMPANY

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To piece. Not to be
copied or distributed &
intended to drive home point
we don't expect big part of
world to be on Bonus!

Free Standing Page: Give To AVP's (Pulling Point From Deck)

- ◆ Our ingoing assumptions are as follows as it relates to % of calls on each "PRP" level in each segment:

	<u>On Full Level Plus Bonus</u>	<u>% on Full Only</u>	<u>% on Base Level</u>
Pack	43%	45%	12%
Carton	27%	49%	24%
CTS	20%	77%	3%

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